

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 IO-10 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 PA-01 PRS-01

USIA-06 DODE-00 SS-15 NSC-05 L-03 /091 W

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R 241726Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2289

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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TAGS: ELAB, PINT, UK

SUBJECT: GROPING CONTINUES FOR A WAY OUT OF THE ECONOMIC
MAZE

REF: LONDON 8818

SUMMARY - FOLLOWING THE CONTROVERSIAL SETTLEMENT OF THE
RAILROAD STRIKE ON FRIDAY NIGHT (JUNE 20) (SEPTTEL), AND
A WEEKEND WARNING FROM THE CHANCELLOR OF THE EXCHEQUER
TO THE TUC THAT IT HAS SIX WEEKS TO SHAPE UP A NEW AND
WORKABLE WAGES POLICY, THERE WERE FURTHER MEETINGS EARLY
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THIS WEEK BETWEEN THE TUC AND GOVERNMENT MINISTERS ON THE

CENTRAL QUESTION OF THE ECONOMY AND -- TOMORROW -- THE TUC GENERAL COUNCIL MAY TAKE ITS FIRST MAJOR STEP IN RE-FASHIONING THE SOCIAL CONTRACT. IT IS CLEAR NOW TO MANY SERIOUS OBSERVERS THAT THE MOMENT OF TRUTH IS GETTING CLOSER AT HAND. END SUMMARY.

1. A RAILROAD STRIKE WAS AVERTED ON FRIDAY NIGHT WHEN THE EXECUTIVE OF THE NATIONAL UNION OF RAILWAYMEN ACCEPTED A BRITISH RAIL OFFER WHICH BY AUGUST 12 WILL AMOUNT TO A NEARLY 30 PERCENT INCREASE (DETAILS IN SEPTTEL). IT IS CLEAR, ALTHOUGH THE UNION DENIES IT, THAT THE SETTLEMENT WAS OUTSIDE THE WAGE GUIDELINES OF THE SOCIAL CONTRACT. HOWEVER, THE FACT THAT IT WAS SETTLED MEANS THAT THE SEARCH FOR A NEW WAGES FORMULA DOES NOT HAVE TO BE VASTLY COMPLICATED BY A STRIKE-RIDDEN ATMOSPHERE.

2. FOLLOWING THE RAIL SETTLEMENT, THE CHANCELLOR OF THE EXCHEQUER DENIS HEALEY DECLARED IN A WEEKEND SPEECH: "THE (SOCIAL CONTRACT) GUIDELINES WILL HAVE TO BE A GOOD DEAL TOUGHER THAN WE HAD LAST YEAR AND THIS TIME WE MUST BE ABLE TO CONVINCE EVERYONE THAT THEY WILL BE OBSERVED IN PRACTICE." HE SAID THAT INFLATION MUST BE REDUCED TO SINGLE DIGITS BY THE END OF 1976 WHICH, HE EMPHASIZED, "MEANS 10 PERCENT AT MOST BY SEPTEMBER 1976." HEALEY SET A DEADLINE OF SIX WEEKS BY WHICH TIME THE UNIONS ARE EXPECTED TO COME UP WITH A WORKABLE ANTI-INFLATIONARY WAGES FORMULA. (PRESUMABLY THE CHANCELLOR SET THIS DATE TO COINCIDE WITH A DECISIVE JULY 23 MEETING OF THE TUC GENERAL COUNCIL BY WHICH TIME A NEW WAGES FORMULA SHOULD BE AGREED IN PREPARATION FOR THE TUC CONGRESS DEBATE IN SEPTEMBER.) IN A RELATED WEEKEND SPEECH, PRIME MINISTER WILSON ALSO ATTEMPTED TO UNDERLINE THE NEED FOR SPEED IN DEALING WITH THE INFLATIONARY CRISIS. HE SAID: "THE SENSE OF URGENCY I WANT TO IMPART IS BASED ON THE FACT THAT THE TIME AVAILABLE TO US IS STRICTLY LIMITED". HE ALSO WARNED THAT THERE MUST BE A STRICT LIMIT ON HOW MUCH MONEY IS DISTRIBUTED AMONG VARIOUS SECTORS OF SOCIETY AND THAT GOVERNMENT MUST "STRICTLY ENFORCE" THIS LIMIT.

3. THESE -- BY NOW TRADITIONAL -- WEEKEND WARNINGS FROM LIMITED OFFICIAL USE

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THE HIGHEST LEADERS OF GOVERNMENT WERE A PRELUDE TO YESTERDAY'S MEETING OF THE TUC LABOR PARTY LIAISON WHERE THE PRIME MINISTER, WHO REMAINED ONLY BRIEFLY, AS WELL AS OTHER MINISTERS DISCUSSED WAGES AND PRICES WITH THE TUC. HOWEVER, THE MEETING WAS INCONCLUSIVE. ALTHOUGH TUC GENERAL SECRETARY LEN MURRAY AND TRANSPORTWORKERS LEADER JACK JONES WERE PRESENT, SEVERAL OTHER KEY TRADE UNION LEADERS WERE ABSENT, INCLUDING HUGH SCANLON, DAVID BAS-

NETT, AND LORD ALF ALLEN. CHANCELLOR HEALEY WAS ALSO --
SURPRISINGLY -- ABSENT. THE UNIONS PRESENTED A DOCUMENT
WHICH HAS BEEN REFERRED TO BY THE PRESS AS "SOCIAL CON-
TRACT - MARK II" AND WHICH HAD BEEN PREVIOUSLY DISCUSSED
BY THE TUC ECONOMIC COMMITTEE (REFTEL). THIS DOCUMENT
WILL BE CONSIDERED AT A MEETING TOMORROW OF THE TUC'S
GENERAL COUNCIL. (THIS DOCUMENT HAS APPARENTLY UNDERGONE
ONE MAJOR MODIFICATION OF EMPHASIS DURING ITS PEREGRINA-
TIONS SINCE IT LEFT THE ECONOMIC COMMITTEE PRECINCTS.
WHERE BEFORE IT APPEARED TO ACCEPT A REDUCTION IN THE
STANDARD OF LIVING, IT NOW EMPHASIZES "THERE IS NOTHING

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IN THE PRESENT ECONOMIC SITUATION WHICH PREVENTS REAL WAGES AND LIVING STANDARDS BEING MAINTAINED IN THE COMING 12 MONTHS".)

4. ON THE EVE OF THEIR OWN IMPORTANT INTERNAL DELIBERATIONS THE TUC WILL BE MEETING AGAIN WITH THE CBI TONIGHT (JUNE 24) TO SEE IF THE TWO ORGANIZATIONS CAN DEVELOP SOME CLOSER COMMON WAGE POLICY OBJECTIVES. THUS, THE GROPING CONTINUES. THE SHUFFLING BACK AND FORTH BETWEEN TUC AND CBI HEADQUARTERS, BETWEEN TUC AND TRANSPORT HOUSE LIMITED OFFICIAL USE

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OR WHITEHALL OR 10 DOWNING STREET IS TAKING PLACE IN AN ATMOSPHERE OF GROWING SERIOUSNESS, ACCORDING TO MANY OBSERVERS.

5. BUT THE GOVERNMENT IS ALSO CONSIDERING ACTION IF THESE MEETINGS ULTIMATELY FAIL TO ACHIEVE AN EFFECTIVE CONSENSUS. THE AUTHORITATIVE FINANCIAL TIMES LOBBY CORRESPONDENT, RICHARD EVANS, REPORTS (JUNE 24) THAT "EMERGENCY ACTION TO CURB WAGE DEMANDS IN BOTH THE PUBLIC AND PRIVATE SECTORS OF INDUSTRY IS NOW UNDER PREPARATION BY THE CABINET IN CASE THE TUC DOES NOT DELIVER A VOLUNTARY SYSTEM OF WAGE RESTRAINT WHICH MEETS THE GOVERNMENT'S INFLATION TARGETS". WHAT THESE CURBS MAY BE IS NOT ENTIRELY CLEAR BUT EVANS BELIEVES THAT IN THE PRIVATE SECTOR THIS MEANS THAT THE GOVERNMENT IS CONSIDERING AN AMENDMENT OF THE PRICES CODE WHICH WOULD MAKE CERTAIN THAT COMPANIES COULD NOT PASS ON ANY EXCESSIVE WAGE INCREASES THROUGH PRICE RISES, AND -- IN THE PUBLIC SECTOR -- THE GOVERNMENT WOULD "STARVE NATIONALIZED INDUSTRIES AND LOCAL AUTHORITIES FOR MONEY TO PAY FOR EXCESSIVE WAGE DEMANDS".

6. WHILE THESE EXPEDIENTS MAY BE UNDER CONSIDERATION, AND THEIR EFFICACY IS DEBATABLE, THERE IS A GROWING NUMBER OF OBSERVERS WHO BELIEVE THAT THE GOVERNMENT COULD YET -- DESPITE THE DEMURRERS OF A NUMBER OF ITS LEADING MINISTERS -- IMPOSE A STRICTER REGIMEN OVER THE ECONOMY, INCLUDING A STATUTORY INCOMES POLICY. AT ANY RATE, WHILE THE MOMENT OF TRUTH MAY NOT YET BE AT HAND, IT IS APPROACHING.

RICHARDSON

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